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FACT SHEET
Assembly Bill 1554 (Jones)
Health Care Affordability

Summary

AB 1554 requires that prior approval be obtained before health insurance rates can be increased beginning January 1, 2009. HMOs and health insurers would need to receive approval from the Department of Managed Health Care (DMHC) or the Department of Insurance for proposed rate increases. Rates requiring approval include premiums, co-payments and deductibles. Proposed rate increases would be denied if they were deemed excessive, discriminatory or unfair. Any proposed rate that is not challenged within 45 days of it being posted on the Department website and not acted on by the Department on its own discretion within 60 days would be deemed approved. This bill exempts rate increases of less than 5% if the health care service plan or insurer's medical loss ratio is 90% or higher for the previous three years.

Existing Law:

Since 1988, insurance companies have been required to get prior approval of rate increases for automobile, home and property casualty insurance from California's Insurance Commissioner. California's Proposition 103 stands out as having the "best practices" in the nation – the best results for consumers and insurers and has saved drivers $23 billion. There is no similar requirement in California for prior approval of health insurance rates. There are twenty-six other states that have some form of prior approval for health insurance rates, but none as comprehensive as this proposal.

Background:

There are approximately 6.5 million Californians without health insurance. The majority of Californians with health insurance fear that ongoing premium increases will cost them their health insurance coverage. Health insurance premium increases are soaring above the rate increases for wages, inflation and medical costs. The Governor has proposed requiring Californians to purchase health insurance, just as they are required to purchase auto insurance. Californians cannot be expected to purchase health insurance unless it is affordable. This year's health care reform proposals include measures intended to reduce the cost of providing health care. Reducing certain costs is important, as is ensuring that those cost-savings are passed on to the consumer. Unless insurers are required to justify their costs and seek regulatory approval for rate increases, there is no guarantee that cost-savings will be passed on to the consumer. Blue Cross of California just transferred $949,844,000 to its out-of-state parent company WellPoint, Inc., while it continues to raise premiums on California policyholders. PacifiCare, Health Net and Aetna have also transferred hundreds of millions of dollars to their parent companies in recent years.

Without rate relief, more Californians will become uninsured or underinsured. AB 1554 does not prevent reasonable profits, advertising and other administrative costs. In fact, under Proposition 103, California auto insurers have maintained profits that are above the national average.

Support:

California Alliance for Retired Americans
California Church IMPACT
California Federation of Teachers
California Labor Federation
California Public Interest Research Group (CALPIRG)
California State Employees Association (CSEA)
California Society for Clinical Social Work (CSCSW)
California Teachers Association
California Teamsters Public Affairs Council
Consumer Attorneys of California
Consumer Federation of California
Foundation for Taxpayer and Consumer Rights
Gray Panthers California
Older Women's League